



CORPORATE GOVERNANCE STRUCTURE AND TAX EVASION OF LISTED MANUFACTURING COMPANIES IN NIGERIA

***Aderibigbe Idowu Sadiq **Ajayi Babatunde Olawale**

**Lecturer, Department of Taxation, The Federal Polytechnic Ilaro, Ogun State*

Correspondence Author's Email Address: aderibigbe.sadiq@federalpolyilaro.edu.ng.

Phone Number: +2348023153623

***Lecturer, Department of Taxation, The Federal Polytechnic, Ilaro, Ogun State*

Co-Author's Email Address: babatunde.ajayi@federalpolyilaro.edu.ng.

Phone Number: +2347048935568

Abstract

The study examines how corporate governance practices affect Nigerian listed manufacturing businesses' tax evasion and avoidance. The annual reports of the twenty-three sampled companies from 2014 to 2023 served as a secondary source of data for the study. Regression, correlation, and descriptive statistics were used to examine the obtained data. The study discovered that while board gender has a major influence on tax avoidance and evasion of listed manufacturing companies in Nigeria, corporate governance structure (board knowledge and experience, CEO salary, and ethical culture) had a negligible effect. Thus, the study comes to the conclusion that higher effective tax rates are linked to a board that is more gender-balanced and varied. Among other things, the research suggests that regulations be put in place to promote gender diversity on the boards of directors of Nigerian manufacturing companies that are listed.

Key Words: *Corporate Governance Structure, Manufacturing companies, Tax Avoidance, Tax Evasion, Board.*

1.0 INTRODUCTION

The Nigerian government has implemented effective taxation to increase the revenue base, which is unquestionably a way to raise extra money to cover public sector expenses for the provision of public goods and services. This is because the government has had a very hard time finding new ways to make money because of the mounting expenses of government operations and the drop in oil revenue in recent years. Therefore, in order to support economic growth and national development, taxpayers must pay taxes. According to Azubike (2009), taxes are common in all civilizations around the world, however even if they are still crucial for Nigeria's revenue generation, caution should be influenced by the views of some taxpayers in the way they are handled. Some businesses see taxes as a burden because they limit the

amount of cash flow that can be utilized to create profits for the businesses and their shareholders. According to Citra, Sambas, and Iskandar (2023), both individual and corporate taxpayers continuously contemplate whether or not to pay taxes since they are perceived as a hardship that must be endured. The majority of business owners frequently use tax planning strategies, which can result in tax avoidance and tax evasion. According to Mashaiekhi and Seyyedi (2015), tax planning strategies may be against the government.

Furthermore, there are few, inconsistent, and contradictory research findings regarding the relationship between corporate governance and tax avoidance in Nigerian manufacturing firms; as a result, the findings are still unclear. Corporate governance and tax avoidance have been the subject of numerous studies, some of which have found a positive correlation between the two. Contrarily, several research find a negative link between company governance and tax avoidance.

However, other research revealed a conflicting link between tax evasion and corporate governance. Additionally, corporate governance factors such board size, board independence, ownership structure, CEO duality, and audit committee independence are the focus of the majority of research on corporate governance and tax avoidance and evasion in Nigerian manufacturing enterprises. Much attention has not been given to board gender, board experience and expertise, CEO compensation, ethical culture, transparency and disclosure, regulatory environment.

The problem of tax avoidance and evasion among Nigerian corporate businesses has not been addressed in previous studies. Tax evasion is a controversial issue that, if not handled properly, can negatively impact a company. Hanlon and Slemrod (2009) stated that if a tax examiner detects tax evasion, it will increase tax obligations, fines, and the company's reputation will be damaged and at risk. Additionally, it can negatively affect the company's current and potential shareholders. Donohoe and Robert (2014) claimed that a company's tax evasion will increase the auditor's risk of litigation if the board of directors attempts to hold the auditor accountable for taxes in the company's financial statements. If the tax is canceled by the tax authorities and a restatement is necessary, the auditor's image will suffer. Since he values his reputation above everything else, the auditor is unlikely to support tax evasion. To the best of the researcher's knowledge, the paucity of studies on corporate governance and tax evasion and avoidance in Nigerian listed manufacturing firms also clearly shows how little research has been done on the subject. The objectives that the current study tends to achieve and the methodological approach differ from the previous study, which creates a gap that needs to be filled. In addition, the majority of studies on corporate governance and tax avoidance and evasion in the Nigerian environment did not base their analyses on the period covered by this study; most related research to the current studies to date has been conducted in

developed countries, generally thought to have more embedded tax laws and predictable fundamentals than Nigeria.

According to Nigeria Vision 2020 Program (2009), corporate governance deals with the manner a company is run efficiently and effectively for the benefit of the shareholders, directors, employees, creditors, the community and other stakeholders. Generally speaking, corporate governance refers to the system of rules, practices and processes by which a company is directed and controlled. It encompasses the relationship among a company's management, board of directors, shareholders and other stakeholders and is designed to ensure accountability, transparency and fairness in the management of the company.

The foundation of agency theory is the agency relationship, which is established when one or more people, known as the principal(s), hire another person, known as the agent, to carry out certain tasks on his behalf by giving the agent some decision-making authority (Omolehinwa, 2006). The theory assumes that there is a fundamental conflict between shareholders and corporate managers (Jensen & Meckling, 1976), which arises because of a conflict of interest between the principal and the agent. Smith (1976:700) acknowledged this tension and argued that: "the directors of such companies, however, being the managers of other people's money than their own, it will be In support of the aforementioned, Crowther and Aras (2008) acknowledge that people are unlikely to disregard their own self-interest when making decisions, or, to put it another way, people do not act altruistically. Agency theory has highlighted the fact that both the principal and the agent are frequently motivated by self-interest despite having different preferences, beliefs, and information, demonstrating that the parties involved are aware of their actions, act consistently, and rationally, and both seek to maximize their own utility, or the value or benefit they place on any economic good they receive (Crowther & Aras, 2008).

Vivi (2016) conducted an empirical study titled "The effect of good corporate governance on tax avoidance: An empirical study on manufacturing companies listed in IDX period 2010 to 2013" and discovered that audit committees have a partial positive effect on tax avoidance, while executive compensation, executive character, company size, institutional ownership, the proportion of boards of commissioners, audit committees, and audit quality all have simultaneous effects to define tax evasion. The study used the judgment sampling method to select the sample, and multiple regression analysis was used to test the impact of two or more independent variables on the dependent variables.

Omesi and Appah (2012) in their study titled corporate governance and tax avoidance of listed consumer and industrial goods companies in Nigeria, using ex-post facto and correlation; sample size was determined

using Taro Yamen's formula; data analysis was done using descriptive statistics, Pearson Fisher unit test, and Kao residual co-integration test; the results showed that while board independence, audit quality, and ownership have a significant impact on tax avoidance of listed firms in Nigeria, the control variables of leverage, capital intensity, and returns on assets suggested no significant influence on tax avoidance of listed firms, while expected growth and size have a significant impact on tax avoidance of listed firms in consumer and industrial goods companies in Nigeria.

Methodology

Research Design

The study engaged ex post facto research design. Ex post facto research design according to Ogbodo, Okenwa and Omonigho (2021) is a systematic empirical inquiry, in which the observer has no direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated.

Population of the Study

In this study, the population includes all the thirty four (34) listed manufacturing companies (Consumer and Industrial goods) in Nigerian Exchange Group.

Sample Size and Sampling Technique

The sample size of this study includes 23 listed manufacturing companies (Consumer goods & Industry Goods) that are listed on the Nigerian Exchange Group for a period of ten years, that is, between 2014 and 2023.

Method of Data Analysis: The data collected was evaluated using descriptive statistics, correlation and robust regression analysis to review the relationships between corporate governance structure and tax avoidance and evasion.

Model Specification

The assumption is that the dependent variable is a linear function of the independent variables.

Their model is given as;

$$ETR = f(BOZ, BOI, AUC, AUQ, OWN, ROA, LEV, GRW, SIZ, CAI) \text{ -----} 1$$

The multiple regression with an error term is showed below:

$$ETR_{it} = \alpha + \beta_1 BOZ_{it} + \beta_2 BOI_{it} + \beta_3 AUC_{it} + \beta_4 AUQ_{it} + \beta_5 OWS_{it} + \beta_6 ROA_{it} + \beta_7 LEV_{it} + \beta_8 GRW_{it} + \beta_9 SIZ_{it} + \beta_{10} CAI_{it} + \mu$$

The model is modified thus;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu \text{} 2$$

$$ETR = \beta_0 + \beta_1 BGEN_{it} + \beta_2 BEXP_{it} + \beta_3 CEO_{it} + \beta_4 ETHCUL_{it} + \beta_5 SIZE_{it} + \mu_{it}$$
 Where, ETR represents the effective tax rate β represents the coefficient of the independent variables (explanatory variables). BRDGEN represents the board gender BRDEXPREXPT represents the board experience and expertise CEOCOMP represents the CEO Compensation ETHCUL represents the ethical culture SIZE represents the size of the company μ represents the error term

Presentation and Discussion of Result

Results Presentation

Table 1: Descriptive Statistics of Variables

Table 1 shows a foundational understanding of the key variables involved in the study, including measures of central tendency and variability. The analysis serves as a critical first step in interpreting the broader implications of corporate governance structure on tax avoidance and evasion of the listed manufacturing companies in Nigeria.

Variables	Obs	Mean	Std. Dev.	Min	Max
ETR	230	.1704048	1.716853	-23.83825	961
BRDGEN	230	.2012361	.194081	0	1.6667
BRDEXPC	230	.9913043	.0930467	0	1
EXPT	230	448639.1	1652791	0	1.27e+07
CEOCOMP	230	.673913	.469802	0	1
ETHCULT	230	7.308181	1.219351	3.038302	10.39179
SIZE	230				

Source: Researcher, 2024

The descriptive statistics of the study's independent and dependent variables, including the mean, standard deviation, minimum, and maximum, are displayed in Table 1. Nigerian listed manufacturing companies pay an effective tax rate of 17% of their taxable income on average, according to the dependent variable's (ETR) average of 0.17. The dispersion of ETR among the companies is measured by the standard deviation, which is 1.7169. The comparatively high standard deviation indicates that the ETRs of the sampled companies vary significantly from one another. It indicates that the ETR is dispersed across a range of values. There is some fluctuation in the other independent variables in the table as well. The average BRDGEN value is near 0.2, meaning that women make up about 20% of the boards. The

comparatively high standard deviation indicates that the percentage of female board members varies significantly throughout the sample. The mean value of BRDEXPCEXPT is close to 1, indicating that the average board member has a high level of experience and expertise. The standard deviation is relatively low, suggesting that there is relatively little variation in the level of experience and expertise across the sample. The mean CEO compensation is roughly 448,639. The comparatively high standard deviation indicates a substantial degree of diversity in CEO salary within the sample. About 67% of the organizations have an ethical culture that is widely regarded as strong or positive, according to the mean value of ETHCULT, which is about 0.7.

ETR	BRDGEN		BRDEXPCEXPT	CEOCOMPEN	ETHCULT	SIZE	
ETR	1.0000						
BRDGEN	0.1762	1.0000					
BRDEXPCEXPT	-0.0134	0.05351.0000					
CEOCOMP	-0.0568	0.1867-0.0423		1.0000			
ETHCULT	0.0582	0.0871	-0.0651		-0.0069	1.0000	
SIZE	-0.0414	0.1356	0.0014		0.1762	0.2408	1.0000

Source: Researcher, 2024.

The link between each pair of independent variables utilized in the regression model is displayed in the correlation matrix, which is displayed in table 2. The effective tax rate and the percentage of female directors on the board have a moderately positive association, according to BRDGEN, which has a correlation of 0.1762. This suggests that companies with more female directors tend to have higher effective tax rates. BRDEXPCEXPT with a coefficient of -0.0134 indicates a very weak negative relationship between board experience and expertise and the effective tax rate. CEOCOMP with a value of -0.0568 indicates a weak negative relationship between CEO compensation and the effective tax rate. A moderately positive correlation between ethical culture and the effective tax rate is indicated by ETHCULT, which has a coefficient of 0.0582. SIZE, which has a value of -0.0414, indicates that the effective tax rate and company size have a weakly negative association. This is in line with the study by (Muhammad, 2021). The correlations between the independent variables are generally weak, indicating that they are not strongly related to each other. The correlations between the independent variables and

the control variable (SIZE) are relatively weak, suggesting that the size of listed manufacturing companies in Nigeria does not have a strong influence on the relationships between the independent variables and ETR. The ETR and the independent variables (BRDGEN, BRDEXPCEXT, CEOCOMPEN, and ETHCULT) have a mixed relationship overall. In a similar vein, every pair of independent variables has a mixed correlation.

Discussion of the Findings

The correlation's findings indicate a somewhat favorable association between tax evasion and avoidance, board gender, and ethical culture. Additionally, there is a weakly negative correlation between CEO salary, firm size, tax evasion and avoidance, and board experience and knowledge. Positive relationship and significant impact of board gender on tax avoidance and evasion suggest that listed manufacturing companies with more female directors tend to have higher effective tax rates which could have implications for corporate governance and tax planning strategies. This is consistent with the research conducted by Ali and Faten (2023) and Amedu and Francis (2022). Given the favorable correlation between board gender and tax evasion and avoidance, listed manufacturing companies may benefit from having a more gender-balanced and diverse board. The results also lend credence to the idea that women's distinct viewpoints and abilities might boost decision-making and business performance in the boardroom. Other factors may be more significant in deciding tax rates for large companies, as evidenced by the result that CEO salary and company size have a modest impact on tax avoidance and evasion. Additionally, the results show that tax evasion and avoidance are positively correlated with ethical culture, which may be because of the organization's dedication to compliance and openness.

The two theoretical frameworks of Agency theory and Stakeholder theory can be used to discuss these findings. Conflicts of interest define the relationship between the principal (shareholders) and the agent (management), according to agency theory.

Conclusion and Recommendations

Conclusion

The study looks into how corporate governance practices affect Nigerian listed industrial businesses' tax evasion and avoidance. According to the study's findings, listed manufacturing businesses in Nigeria that have effective board gender have a major impact on tax evasion and avoidance. Consequently, higher effective tax rates are linked to a board that is more gender-balanced and diversified. In order to increase

corporate performance, corporations should think about increasing the percentage of female directors on their boards.

Recommendations

The following suggestions are made in light of the study's findings and conclusion: Increase the percentage of female board members: Enacting regulations that improve the gender mix on the boards of directors of publicly traded industrial companies is one way to promote gender diversity on the board. Diverse boards are linked to better corporate governance and decision-making, which can lower the likelihood of tax evasion and avoidance. Encourage a diverse and inclusive culture: According to the study's findings, a diverse and inclusive culture is critical to the success of a business. In order to do this, businesses should put in place procedures and policies that support diversity and inclusion, include training staff members on unconscious bias, diversity and inclusion committees, and diversity metrics to monitor advancement. Monitor and assess CEO remuneration: Even though the study found no substantial relationship between CEO compensation and business success, it is nevertheless crucial for businesses to routinely monitor and assess CEO compensation. This can guarantee that CEOs are held responsible for their choices and that their compensation is in line with the success of the business. Create a strong culture of ethics: The study's findings imply that a solid ethical culture is vital for organizational performance. In order to accomplish this, businesses should establish a strong ethical culture by putting in place procedures and regulations that support morality and integrity, like an ethics hotline, frequent ethics training, and an open and accountable culture.

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